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DOUGLAS NEWMAN GOOD

Submission to

Central Bank of Ireland

in relation to

Macro-Prudential Policy for Residential Mortgage Lending

Consultation Paper CP87

Submitted by

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27th November 2014

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Introduction

Douglas Newman Good is a multi disciplinary estate agency practice with over 70 offices throughout the Republic of Ireland. At the date of this submission the DNG Group have more residential properties for sale in Ireland than any other estate agency practice. We have a sizeable New Homes, Development and Advisory Division based in Dublin and we act for a large number of land owners, developers, builders and financial institutions and carry out a significant amount of property related services for NAMA. We have in the past also undertaken various work for many local authorities and The Housing Agency. DNG Advisory Services have also carried out extensive work for financial institutions and international investors over the last two years for the sale and purchase of very substantial loan books and property portfolios.

We have serious concerns about the Central Bank's proposals to curtail mortgage lending as we feel it will have a negative effect on the property market and will consequently hinder recovery in Ireland as we believe that having a normal operating property market is an important ingredient to gain full economic recovery.

At the outset, we wish to point out that we are in favour of the Central Bank implementing some type of mortgage lending safeguards. However, we feel the current proposals are too strict and if the restrictions are implemented in their current form they are likely to adversely affect market recovery, increase rents and reduce the ability of first time buyers (FTB) to enter the property market.

The recent consultation paper from the Central Bank on the 7th October 2014 outlining the intention to restrict mortgage lending to 80% of the loan to value (LTV) and 3.5 times multiple of salary is an effort to do two things; Ensure that the banks do not repeat the mistakes of the past and limit their increasing resilience in the event of a downturn by curtailing reckless lending and; Protect borrowers by limiting the amount that they can borrow.

Summary of the Property Market

- Property transactions for the year to date show the transactions per thousand population in Ireland sits at under 2%. This is relatively low compared to our closest international neighbours in Great Britain who has an average of 4% of property per population changing hands in Northern Ireland; Wales; Scotland and England. Hence the property market in Ireland whilst improving is still not operating normally.

- Property prices outside Dublin, Galway and Cork City and their respective commuter belts are more or less stagnant or recovering at very slow rates of growth. Whilst property prices in Cork and Galway cities are rising they are rising at modest levels from a very low base and are still 50% below peak.

- Property prices in Dublin have risen sharply which was inevitable as they dropped the furthest and the fastest. The recovery in the property market in Dublin is being over exaggerated with prices only recently dipping just under 50% of the fall from peak. Prices in Dublin have risen by an average of 2% per month this year, but the level of increase is materially moderating according to the results of the DNG House Price Gauge. However, this will not be reflected in the results of the CSO House Price Index as there is a time lag in their results as their data is based on completed sales and also takes no account of cash transactions in the market.

- According to our own residential property price index the level of increase is on a trend towards stabilisation. Property price increases in the capital are likely to fall to a rate of 1% or less per month, without intervention, in 2015 and below this in the following year. This is healthy as prices are still 49% below their peak.

- Property prices in Dublin in the sub €250,000 category have risen by 7% in the third quarter of 2014 as investors are competing to buy before the end of 2014 to qualify for the CGT exemption. This rapid rate of price growth is partially occurring due to a specific Government incentive and has distorted the overall pricing figures somewhat.

- It is probable that between 8,500 - 10,000 new homes will be completed this year of which half will be one off homes and many more will be in part-built schemes being completed out.

Reason for Recent Property Price Increases

- The recent price increases in the capital and to a lesser degree in Cork, Limerick and Galway, is not due to free availability of credit or due to financial institutions lending more readily but due to a lack of stock.

- NAMA and the majority of financial institutions and others are all selling large portfolios of loans and properties instead of releasing them individually to the market which is restricting stock coming on the market.

- New homes construction remains extremely low but is improving slowly in the capital.

Credit Lending

- 90% loans with up to 4.5 times salary have been available since the mid 1980's with no issue. The real destabilising influence in the last decade was high percentage interest only loans made available to all buyer types.

- Current bank lending policy is conservative and financial institutions are forensic prior to approving loans and are stress testing interest rates at high levels.

Potential Risks of Current Central Bank Proposals

- Risk that property market recovery will be delayed as a consequence of the new proposed measures.

- Risk of fall in the number of property transactions in some areas of Ireland which will slow recovery as buyers save further to buy.

- Risk of new building numbers not re-bounding as anticipated for entry level homes as builders will be nervous to build and banks to correspondingly lend for construction. A further consequence of this is a risk to employment levels in the construction and associated home retail sectors.

- Risk that rents will rise further.

- Risk that as rents rise social housing tenants get further marginalised as the gap widens between rent subsidy caps and rental values. For the past 5 years or more the majority of new social housing has been provided by the private rented sector.

- Risk that first time buyers will be forced to borrow from secondary high interest rate providers to fund balance of loans.

- Risk of asset inflation in key urban areas due to the lack of construction.

- Risk that International investors will become nervous in investing in Ireland due to uncertainty in the property market.

DNG Proposed Alternative Options for the Central Bank to Control Financial Institutions

Loan to Value

- That there be a grading in terms of LTV which would not penalise first time buyers in particular on the following lines:
    - Loans up to €300,000 - Proposed LTV of 90% (current level offered by AIB is 92%);
    - Loans of between €300,001 and €500,000 - Proposed LTV 85%;
    - Loans of €500,001 or more - Proposed LTV of 80%.

- Alternatively the Central Bank could reduce lending from 92% to 90% for 6 months, and then to 87.5% for the next 6 months and 85% for the next 6 months etc. assessing matters periodically to ensure there are no undesired property market or wider economic effects.

We believe this is a fairer solution and something that we hope the Central Bank might consider during the consultation period which may have a similar effect to what they are aiming to achieve.

Loan to Income

It is prudent that there is a ceiling on the amount that can be borrowed in relation to salary. However, the proposed multiple of 3.5 times annual salary is slightly prohibitive in Dublin and other key urban areas. A cap of 4 to 4.5 times the annual salary should be considered.

Education

FTBs that opt to borrow between 80%- 90% could be given the option of taking a home buying course as is standard in some states of the USA. These types of courses point out the benefits and risks involved in home ownership and teach buyers how to budget effectively.

Government proposal to provide insurance for new homes only

The Taoiseach recently announced his proposal to introduce government backed insurance for 10% of all mortgages for new homes only. We do not believe this is necessary if the Central Bank take our proposals on board. If they do not, then this proposal should be adopted for all property sales to first time buyers up to €300,000 and not just new homes sales.

Conclusion

We have major concerns that these measures will unintentionally affect recovery in the property market and we are urging the Central Bank of Ireland to consider our proposals as recommended in this submission as being a fair and reasonable action that should have the desired effect required.

With this in mind, we would also urge the Governor of the Central Bank to reconsider the structure and the severity of the proposed measures.

Keith Lowe
Chief Executive

27th November 2014

Douglas Newman Good Group – Current Profile

Established in 1982, the Douglas Newman Good Residential Group is a nationwide organisation incorporating various divisions; Residential Sales, Letting & Management, Asset Management, New Homes & Development & Advisory Services, Valuations Department and DNG Nationwide, the franchising division. The entire network currently extends to just over 70 branches nationwide. DNG also offers a full range of commercial property services through its associated company Newman Lowe Commercial. The group also provides a full range of financial services through its sister company – GMC Mortgages.

The firm is a member firm of the Royal Institute of Chartered Surveyors and the Society of Chartered Surveyors Ireland and operates in compliance with the National Property Services Regulatory Authority.

Douglas Newman Good Residential Group is currently the largest seller of residential property in the state. There are offices located in most major towns and cities in Ireland.

The valuations department carries out extensive valuation work for financial institutions, private businesses, public bodies and individuals. Our expertise is residentially based carrying out large volumes of bank related, revenue related, probate, mortgage and portfolio valuations. This department in the past would have carried out substantial valuation work for financial institutions where assets were being transferred to NAMA from 2009 – 2011 and have more recently have been one of the most active agency firms in the market in advising international funds and banks on purchasing loan books and large scale portfolios in Ireland.

DNG Advisory Division offers an extensive range of services to financial institutions, accountancy firms, Receivers, builders and developers involved in the sale, letting and management of new and second hand homes.

DNG Advisory Team have vast expertise in advising and handling new homes developments and in particular the marketing and sale of affordable units over a long history both for and in conjunction with various local authorities.

DNG – November 2014